

JOHNSON COUNTY EXTENSION COUNCIL
Olathe, Kansas

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT**

December 31, 2014

JOHNSON COUNTY EXTENSION COUNCIL

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INDEPENDENT AUDITOR'S REPORT

To the Extension Board
Johnson County Extension Council
Olathe, KS 66062

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Johnson County Extension Council, as of and for the year ended December 31, 2014 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note C to meet the financial reporting requirements of the State of Kansas; this includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note C of the financial statement, the financial statement is prepared by the Johnson County Extension Council to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note C and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis of Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Johnson County Extension Council as of December 31, 2014, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Johnson County Extension Council as of December 31, 2014, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide* described in Note C.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditure-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, (Schedules 1 and 2 as listed in the table of contents) are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note C.

Prior Year Comparative

The 2013 Actual column presented in the individual fund schedules of regulatory basis receipts and expenditures -- actual and budget (Schedule 2 as listed in the table of contents) is also presented for comparative analysis and is not a required part of the 2014 basic financial statement upon which we have rendered an unmodified opinion dated August 14, 2015. The 2013 basic financial statement and our accompanying report are not presented herein, but available in electronic form from the web site of the Kansas Department of Administration at the following link <http://da.ks.gov/ar/muniserv/>. Such 2013 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The 2013 comparative information was subjected to the auditing procedures applied in the audit of the 2013 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 basic financial statement or to the basic financial statements itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2013 comparative information is fairly stated in all material respects in relation to the 2014 basic financial statement as a whole, on the basis of accounting described in Note C.

Agler & Gaeddert, Chartered

Agler & Gaeddert, Chartered
August 14, 2015

JOHNSON COUNTY EXTENSION COUNCIL

Statement 1

**SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH
REGULATORY BASIS
For the Year Ended December 31, 2014**

| | |
|--|--------------------------|
| Beginning unencumbered cash balance, beginning of year | \$ 330,829 |
| Cash receipts | 936,829 |
| Expenditures | <u>977,350</u> |
| Ending unencumbered cash balance, end of year | 290,308 |
| Outstanding encumbrances and accounts payable | <u>42,163</u> |
| Ending cash balance, end of year | \$ <u><u>332,471</u></u> |
| Composition of ending cash | |
| Balances on deposit | |
| Demand deposit accounts | |
| Brotherhood Bank & Trust | \$ <u><u>332,471</u></u> |

The accompanying notes are an integral part of this statement.

JOHNSON COUNTY EXTENSION COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A. MUNICIPAL REPORTING ENTITY

The Johnson County Extension Council (the Council), in cooperation with Kansas State University, provides technical assistance, information and education that improves family, farm and community life. The Council is governed by a nine-member Executive Board elected by the 24 publicly elected members of the Johnson County Extension Council. The Council is a separate legal entity from Johnson County. The Council has a related municipal entity, which is the Johnson County Education Foundation (The Foundation). The Foundation is a separate non-profit entity whose sole purpose is to receive donations to benefit the council. This related municipal entity is not presented.

NOTE B. REGULATORY BASIS FUND TYPES

The accounts of the Council are organized and operated on the basis of funds. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. Funds accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The Council potentially could have the following type of funds.

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – used to account for the proceeds of specific tax levies and other specific revenues sources (other than Capital Project and tax levies for long-term debt) that are intended for specific purposes. The Council does not have any funds of this type.

Bond and Interest Fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and used to make payments of general long-term debt. The Council does not have any funds of this type.

Capital Project Fund – used to account for the debt proceeds and other financial resources to be used for acquisition or construction of major capital facilities or equipment. The Council does not have any funds of this type.

Business Fund – funds financed in whole or part by fees charged to users of goods or services (i.e. enterprise and internal service funds etc.). The Council does not have any funds of this type.

Trust Fund – funds used to report assets held in trust for the benefit of the municipal financial reporting entity (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the municipality reporting entity scholarship funds, etc). The Council does not have any funds of this type.

Agency Fund – funds used to report assets held by the municipal reporting entity in purely a custodial capacity (payroll clearing fund, municipal court accounts, etc.). The Council does not have any funds of this type.

NOTE C. BASIS OF ACCOUNTING

Statutory Basis of Accounting: The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws for the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

JOHNSON COUNTY EXTENSION COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE C. BASIS OF ACCOUNTING – continued

The Council has approved a resolution that is in compliance with K.S.A. 75-1120a(a) waiving the requirement for application of generally accepted accounting principles and allowing the Council to use statutory basis of accounting.

Departure from Accounting Principles Generally Accepted in the United States of America. The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories and prepaid expenses, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Purchases of buildings and equipment owned by the Council are expensed in the year of purchase rather than capitalized and depreciation as required by generally accepted accounting principles. Capital assets that account for land, building and equipment owned by the Council are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes and compensated absences are not presented in the financial statements.

NOTE D. BUDGETARY INFORMATION

Internal budgets are prepared for monitoring purposes and are not required to be published. In 2014, expenditures exceeded the internal budget.

NOTE E. CASH AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the Council. The statute requires banks eligible to hold the Council's funds have a main or branch bank in the county or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the bank to pledge securities for deposits in excess of FDIC coverage. The Council has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the Council's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The Council has no investment policy that would further limit its investment choices. The Council rates investments (if any) as noted. The Council held no such investments at December 31, 2014.

Custodial credit risk – deposits: Custodial credit risk is the risk that in the event of a bank failure, the Council's deposits may not be returned to it. State statutes require the Council's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. There were no designated "peak periods" during the year. All bank deposits were legally secured at December 31, 2014.

At December 31, 2014, the Council's carrying amount of deposits was \$332,471 and the bank balance was \$372,207. The difference between carrying amount and bank balance is outstanding checks and deposits. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance \$250,000 was covered by FDIC insurance, and \$122,207 was collateralized with securities held by the pledging financial institutions' agents in the Council's name.

Custodial credit risk – investments: For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the Council will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments be adequately secured. The Council had no such investments at year end.

JOHNSON COUNTY EXTENSION COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE E. CASH AND INVESTMENTS - continued

Cash balance is invested to the extent available in certificates of deposit and other authorized investments. All investments are stated at cost.

NOTE F. OTHER LONG-TERM OBLIGATIONS FROM OPEARTIONS

Annual Leave:

Support Staff are eligible for annual leave benefits in varying annual amounts depending upon years of service. Employees are allowed to accumulate and carry forward a maximum of two times their annual leave. Eligible part time employees receive pro-rated annual leave. Maximum accrual is two times of the vacation hours earned per year. Annual leave is payable upon termination of employment.

| Years of Service | Number of Vacation Hours Per Year |
|---------------------|--|
| 0-5 | 96 |
| 6-10 | 120 |
| 11 | 132 |
| 12 | 138 |
| 13 | 144 |
| 14 | 156 |
| 15 | 162 |

Agents accumulate 22 days of annual leave benefits per year up to 38 days that is payable upon termination.

Sick Leave:

Support staff sick leave is accumulated to full time employees at the rate of 8 hours per month. Part time employees working more than 1,000 hours per year accumulate 4 hours per month. Twenty percent of accumulated sick leave is payable upon termination of employment.

Agents accumulate sick leave at the rate of 8 hours per month with no limit. Upon termination if more than 800 hours are accumulated they will be paid out at the following rate depending upon the years of service. Accumulated sick leave compensation is as follows: compensation for 30 working days if completed 8 or more years of service and has accumulated at least 800 hours, compensation for 45 working days if employee has completed 15 or more years of service and has accumulated 1000 hours, and compensation for 60 working days if completed 25 or more years of service and has accumulated 1200 hours of sick leave.

The Council's policy is to recognize the costs of compensated absences when actually paid to employees.

Operating Leases:

The Johnson County Extension Council has entered into a lease agreement for the use of a postage machine. The future minimum payments on these leases are:

| <u>Lease on Postal Machine</u> | <u>Amount</u> |
|--------------------------------|---------------|
| 2015 | \$ <u>558</u> |

Rental expense for postal machine under this operating lease was \$2,232 for the year ended December 31, 2014.

JOHNSON COUNTY EXTENSION COUNCIL

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE G. DEFINED BENEFIT PENSION PLAN

Plan description - The Council participates the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Ave., Suite 100, Topeka, Kansas 66603) or by calling 1-888-257-5737.

Funding Policy - KSA 74-4919 and K.S.A. 74-4921 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is Tier 1 or Tier 2 member. The Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 5% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contributions rates for KPERS employers.

Net Pension Liability - The total pension liability for KPERS was determined by an actuarial valuation as of December 31, 2013, which was rolled forward to June 30, 2014. As of June 30, 2014, the net pension liability for KPERS was \$8,291,794,910. KPERS has not determined the Municipality's proportionate share of the net pension liability as of June 30, 2014. The complete actuarial valuation report including all actuarial assumptions and methods is publically available on the website at www.kpers.org or can be obtained as described in the first paragraph above.

NOTE H. RISK MANAGEMENT

The Johnson County Extension Council is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Council carries commercial insurance. Liabilities related to risks of loss are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. During the last three years, claim settlements have not exceeded insurance coverage.

NOTE I. OTHER INFORMATION

Educational Services - Cash receipts and expenditures in this category represent fees collected for specific services which require special equipment or personnel such as soil testing services and other educational services. None of these amounts collected represent tax monies.

Reclassifications - Certain amounts in the prior periods presented have been reclassified to conform to the current period financial statement presentation. These reclassifications have no effect on previously reported net income.

Subsequent Events - The date to which events occurring after December 31, 2014, the date of the most recent Summary of Cash Receipts, Expenditures and Unencumbered Cash have been evaluated for possible adjustments to the financial statements or disclosure is August 14, 2015, which is the date on which the financial statements were available to be issued. Management is not aware of any material subsequent events which need to be disclosed.

REGULATORY BASIS
SUPPLEMENTARY INFORMATION

JOHNSON COUNTY EXTENSION COUNCIL

Schedule 1

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS
For the Year Ended December 31, 2014**

| | |
|--|--------------------------|
| Certified budget for comparison | \$ 901,708 |
| Adjustment for qualifying budget credits | <u>86,353</u> |
| Total budget | 988,061 |
| Expenditures chargeable to current year | <u>978,850</u> |
| Over (Under) budget | \$ <u><u>(9,211)</u></u> |

See Independent Auditor's Report.

JOHNSON COUNTY EXTENSION COUNCIL

Schedule 2

GENERAL FUND SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET REGULATORY BASIS For the Year Ended December 31, 2014 (With Comparative Actual Totals for the Prior Year Ended December 31, 2013)

| | | <u>2014</u> | | <u>Variance</u> |
|---|-------------------|-------------------|-------------------|-------------------|
| | <u>2013</u> | <u>Actual</u> | <u>Budget</u> | <u>Over</u> |
| | <u>Actual</u> | | | <u>(Under)</u> |
| Cash receipts | | | | |
| Local sources | | | | |
| Taxes | \$ 710,757 | \$ 710,662 | \$ 710,662 | \$ 0 |
| Kansas State University: | | | | |
| Salaries paid directly to agents | 80,939 | 88,028 | 107,796 | (19,768) |
| Educational service fees | 152,740 | 123,193 | 50,000 | 73,193 |
| Interest | 3,388 | 3,286 | 3,250 | 36 |
| Other income | 2,657 | 13,160 | 0 | 13,160 |
| Equipment Replacement Reserve | 0 | 0 | 30,000 | (30,000) |
| Total cash receipts | <u>950,481</u> | <u>938,329</u> | <u>\$ 901,708</u> | <u>\$ 36,621</u> |
| Expenditures | | | | |
| Salaries: | | | | |
| Paid by Council | 515,555 | 530,912 | \$ 507,285 | \$ 23,627 |
| Paid by Kansas State University | 80,939 | 88,028 | 107,796 | (19,768) |
| Payroll taxes and benefits | 137,466 | 130,815 | 130,471 | 344 |
| Telephone | 3,453 | 4,005 | 1,500 | 2,505 |
| Printing, audit and treasurer bond | 8,126 | 15,574 | 18,000 | (2,426) |
| Supplies, stationary and postage | 12,589 | 9,799 | 24,734 | (14,935) |
| Travel | 9,113 | 9,426 | 13,000 | (3,574) |
| Equipment - auto | 18,086 | 11,298 | 7,000 | 4,298 |
| Subsistence | 4,276 | 3,294 | 4,500 | (1,206) |
| Miscellaneous | 12,759 | 7,389 | 7,422 | (33) |
| Educational services | 141,056 | 147,043 | 50,000 | 97,043 |
| Equipment Replacement Reserve | 0 | 21,267 | 30,000 | (8,733) |
| Legal fund budget & expenditures | <u>943,418</u> | <u>978,850</u> | <u>901,708</u> | <u>77,142</u> |
| Adjustments for qualifying budget credits | <u>0</u> | <u>0</u> | <u>86,353</u> | <u>(86,353)</u> |
| Total expenditures | <u>943,418</u> | <u>978,850</u> | <u>\$ 988,061</u> | <u>\$ (9,211)</u> |
| Receipts over (under) expenditures | 7,063 | (40,521) | | |
| Unencumbered cash, January 1 | <u>323,766</u> | <u>330,829</u> | | |
| Unencumbered cash, December 31 | <u>\$ 330,829</u> | <u>\$ 290,308</u> | | |

See Independent Auditor's Report.